BANK OF BAHRAIN & KUWAIT B.S.C.

(Incorporated in Bahrain with Limited Liability)

INDIAN BRANCHES

BALANCE SHEET AS ON 31ST MARCH 2012

	Schedule	As on 31.03.2012 ₹ (000's)	As on 31.03.2011 ₹ (000's)
CAPITAL AND LIABILITIES			
Capital	1	2,027,350	584,044
Reserves & surplus	2	683,820	476,725
Deposits	3	6,718,844	5,147,684
Borrowings	4	2,211,875	955,950
Other liabilities and provisions	5	243,848	293,906
TOTAL:		**11,885,737**	**7,458,309**
ASSETS			
Cash and balances with Reserve Bank of India	6	410,310	452,716
Balances with Banks and Money at Call and Short Notice	7	1,360,054	576,422
Investments	8	3,394,681	2,331,918
Advances	9	6,435,475	3,829,020
Fixed assets	10	51,055	47,842
Other assets	11	234,162	220,391
TOTAL:		**11,885,737**	**7,458,309**
Contingent Liabilities	12	6,395,086	3,452,636
Bills for Collection		1,243,603	553,232
Significant Accounting Policies and Notes to Accounts	17 & 18		

Schedules referred to herein form an integral part of the Balance Sheet.

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31ST MARCH 2012

	Schedule	Year Ended 31.03.2012 ₹ (000's)	Year Ended 31.03.2011 ₹ (000's)
1 INCOME			
Interest earned	13	759,596	519,721
Other income	14	106,628	96,017
TOTAL:		**866,224**	**615,738**
2 EXPENDITURE			
Interest expended	15	288,757	236,911
Operating expenses	16	185,786	172,770
Provisions and contingencies		184,586	63,021
TOTAL:		**659,129**	**472,702**
3 PROFIT			
Net Profit for the year		207,095	143,036
Profit/(Loss) Brought Forward		22,696	(84,581)
TOTAL:		**229,791**	**58,455**
4 APPROPRIATIONS			
Transfer to Statutory Reserve		51,774	35,759
Transfer to surplus retained for Capital Adequacy		178,017	–
Balance carried over to Balance Sheet		–	22,696
TOTAL:		**229,791**	**58,455**
Significant Accounting Policies and Notes to Accounts	17 & 18		

Schedules referred to herein form an integral part of the Profit and Loss Account.

As per our attached report of even date

For and on behalf of
A. P. Sanzgiri & Co.
Chartered Accountants
Firm Registration No. 116293W

Sd/-
Mehul Shah
Partner
Membership No. 100909

Mumbai
Dated: June 21, 2012

For Bank of Bahrain & Kuwait B.S.C.
Indian Branches

Sd/-
V. Sankaran
Country Head - India

Sd/-
Mehjabeen Saifi
Vice President Financial Control - India

BANK OF BAHRAIN & KUWAIT B.S.C.

(Incorporated in Bahrain with Limited Liability)

INDIAN BRANCHES

CASH FLOW STATEMENT FOR THE YEAR ENDED MARCH 31, 2012

(₹ in 000's)

Particulars	2011-12	2010-11
Cash flows from operating activities		
Net profit before taxation	337,982	153,412
Adjustments for:		
Depreciation on Fixed Assets	14,553	20,927
(Profit)/Loss on sale of fixed assets	(482)	(160)
Premium amortised on Held to Maturity category	4,676	4,676
Provision in respect of Non performing advances	32,935	57,590
Provision in respect of Non performing advances written back	(1,909)	(6,911)
Bad Debts written off	177	3
Provision on country risk	1,102	150
Other Provisions	–	–
Provision on Standard Assets	10,425	(1,065)
Other assets written off	–	1,013
Provision on other assets written back	–	(1,013)
Provision on Investments	10,969	2,878
Operating profit before working capital changes	**410,428**	**231,500**
(Increase)/Decrease in Investments	(1,078,408)	(87,980)
(Increase)/Decrease in Advances	(2,637,658)	(13,572)
(Increase)/Decrease in Other Assets	(50,161)	(38,048)
Increase/(Decrease) in Deposits	1,571,160	(2,209)
Increase/(Decrease) in Other Liabilities & Provisions	(61,648)	22,721
Increase/(Decrease) in Borrowings	1,255,925	406,950
Income taxes (paid)/received	(94,434)	(43,739)
Net Cash Flow generated from/(used in) Operating Activities	**(684,796)**	**475,623**
Cash flows from investing activities		
Purchase of fixed assets	(17,777)	(14,388)
Proceeds from sale of fixed assets	493	341
Net Cash Flow generated from/(used in) Investing Activities	**(17,284)**	**(14,047)**
Cash flows from financing activities		
Injection of capital	1,443,306	–
Net increase/(decrease) in cash and cash equivalents	**741,226**	**461,576**
Cash and Cash equivalents at the beginning of the year	1,029,138	567,562
Cash and Cash equivalents at the end of the year	**1,770,364**	**1,029,138**

As per our attached report of even date

For and on behalf of
A. P. Sanzgiri & Co.
Chartered Accountants
Firm Registration No. 116293W

Sd/-
Mehul Shah
Partner
Membership No. 100909

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BANK OF BAHRAIN & KUWAIT B.S.C.

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INDIAN BRANCHES

SCHEDULES FORMING PART OF ACCOUNTS

	As on 31.03.2012 ₹ (000's)	As on 31.03.2011 ₹ (000's)
SCHEDULE 1 – SHARE CAPITAL		
(i) Amount of deposit kept with the Reserve Bank of India under section 11(2)(b) of the Banking Regulation Act, 1949	290,000	228,000
(ii) Amount brought in by Bank by way of Capital		
Opening Balance	584,044	584,044
Add: Capital infusion during the year	1,443,306	–
Total	**2,027,350**	**584,044**
SCHEDULE 2 – RESERVES AND SURPLUS		
I Statutory Reserve		
As per Last Balance Sheet	252,377	216,618
Add: Transfer from Profit & Loss Account	51,774	35,759
	304,151	252,377
II Property Investment Reserve	9,976	9,976
III Capital Reserve	27,231	27,231
IV Surplus Retained for Capital Adequacy		
As per Last Balance Sheet	164,445	164,445
Add: Transfer from Profit & Loss Account	178,017	–
	342,462	164,445
V Balance in Profit and Loss Account	–	22,696
Total	**683,820**	**476,725**
SCHEDULE 3 – DEPOSITS		
A I Demand Deposits		
(i) From Banks	60,384	19,519
(ii) From Others	1,610,773	1,113,475
	1,671,157	1,132,994
II Saving Bank Deposits	698,416	625,677
III Term Deposits		
(i) From Banks	2,135	1,991
(ii) From Others	4,347,136	3,387,022
	4,349,271	3,389,013
Total	**6,718,844**	**5,147,684**
B (i) Deposits of branches in India	6,718,844	5,147,684
(ii) Deposits of branches outside India	–	–
Total	**6,718,844**	**5,147,684**

	As on 31.03.2012 ₹ (000's)	As on 31.03.2011 ₹ (000's)
SCHEDULE 4 – BORROWINGS		
I Borrowings in India from		
(i) Reserve Bank of India	450,000	415,000
(ii) Other Banks	490,000	95,000
(iii) Other institutions and agencies	–	–
	940,000	510,000
II Borrowings outside India	1,271,875	445,950
Total (I+II)	**2,211,875**	**955,950**
Secured borrowings included in I & II above – ₹ 450,000 (Previous year ₹ 400,000) (₹ in 000's)		
SCHEDULE 5 – OTHER LIABILITIES AND PROVISIONS		
I Bills Payable	9,085	65,724
II Interest Accrued	54,931	34,494
III Provision for standard assets	28,985	18,561
IV Provision for tax (net of advance tax)	63	–
V Others (including provisions)	150,784	175,127
Total	**243,848**	**293,906**
SCHEDULE 6 – CASH AND BALANCE WITH RESERVE BANK OF INDIA		
I Cash in hand (including foreign currency notes)	7,926	3,990
II Balances with Reserve Bank of India		
(i) In Current Account	402,384	448,726
(ii) In Other Account	–	–
Total (I+II)	**410,310**	**452,716**
SCHEDULE 7 – BALANCES WITH BANKS & MONEY AT CALL & SHORT NOTICE		
I In India		
(i) Balances with Banks		
(a) In Current Account	819	4,388
(b) In Other Deposit Account	–	–
(ii) Money at Call and Short Notice		
(a) With Banks (*)	200,875	133,785
(b) With Other Institutions	–	–
	201,694	138,173
II Outside India		
(i) In Current Account	1,107,485	72,570
(ii) In Other Deposit Accounts	–	–
(iii) Money at Call and Short Notice	50,875	365,679
	1,158,360	438,249
Total (I+II)	**1,360,054**	**576,422**

* includes lending under LAF of ₹ 150,000 (in '000s) (previous year Nil)

BANK OF BAHRAIN & KUWAIT B.S.C.

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INDIAN BRANCHES

SCHEDULES FORMING PART OF ACCOUNTS

	As on 31.03.2012 ₹ (000's)	As on 31.03.2011 ₹ (000's)
SCHEDULE 8 – INVESTMENTS		
I Investments in India in		
(i) Government securities (*)	2,473,798	1,893,408
(ii) Other approved securities	–	–
(iii) Shares	–	–
(iv) Debentures and bonds	240,000	–
(v) Subsidiaries/Joint Ventures	–	–
(vi) Others	680,883	438,510
	3,394,681	**2,331,918**
II Investments outside India	–	–
	3,394,681	**2,331,918**
III Investments in India		
Gross Value	3,437,822	2,364,090
Less:- Provision on Investments	(43,141)	(32,172)
Net Value	**3,394,681**	**2,331,918**

* includes Securities of book value of ₹ 50,038 (FV ₹ 50,000) (Previous Year BV 50,760 FV 50,000) deposited with CCIL, securities of FV of ₹ 472,500 (Previous Year ₹ 420,000) given under LAF and securities of Face Value of ₹ 290,000 kept with RBI under section 11(2)(b)(ii) of Banking Regulation Act, 1949 (Previous Year FV ₹ 228,000). Excludes securities of FV of ₹ 157,500 (Previous Year Nil) received under LAF (₹ in 000's).

	As on 31.03.2012 ₹ (000's)	As on 31.03.2011 ₹ (000's)
SCHEDULE 9 – ADVANCES		
A (i) Bills purchased and discounted	1,618,145	1,176,904
(ii) Cash credits, Overdrafts & Loans	2,484,955	1,439,866
(iii) Term Loans	2,332,375	1,212,250
Total	**6,435,475**	**3,829,020**
B (i) Secured by tangible assets*	3,837,420	2,926,619
(ii) Covered by Bank/ Government Guarantees	1,059,554	352,627
(iii) Unsecured	1,538,501	549,774
* includes advances against book debts		
Total	**6,435,475**	**3,829,020**
C I Advances in India		
(i) Priority Sector	1,884,471	1,067,947
(ii) Public Sector	–	–
(iii) Banks	460,756	309,055
(iv) Others	4,090,248	2,452,018
Sub-total	**6,435,475**	**3,829,020**
II Advances outside India	–	–
Sub-total	–	–
Total	**6,435,475**	**3,829,020**

	As on 31.03.2012 ₹ (000's)	As on 31.03.2011 ₹ (000's)
SCHEDULE 10 – FIXED ASSETS		
I Premises		
At cost as per last Balance Sheet	24,988	24,988
Additions during the year	–	–
Deductions during the year	–	–
Depreciation to date	(1,765)	(1,358)
	23,223	23,630
II Other fixed assets		
At cost as per last Balance Sheet	158,502	153,882
Additions during the year	15,662	14,748
Deductions during the year	(21,632)	(10,128)
Depreciation to date	(126,815)	(134,290)
	25,717	24,212
III Capital work in progress (including capital advances)	2,115	–
Total	**51,055**	**47,842**
SCHEDULE 11 – OTHER ASSETS		
I Interest accrued	51,472	39,140
II Tax paid in advance/tax deducted at source (net of provisions)	–	48,748
III Deferred Tax (net) (Refer Accounting Policy 10 & Notes to Accounts 38)	41,620	29,263
IV Stationery and stamps	23	16
V Others	141,047	103,224
Total	**234,162**	**220,391**
SCHEDULE 12 – CONTINGENT LIABILITIES		
I Claims against the bank not acknowledged as debts	75,000	75,000
II Liabilities on account of outstanding forward exchange contracts	5,113,626	2,464,843
III Guarantees given on behalf of constituents		
(a) In India	310,944	332,658
(b) Outside India	515,496	376,063
IV Acceptances, endorsements and other obligations	376,890	204,072
V Other items for which the Banks is contingently liable		
– Capital Commitments	3,130	–
Total	**6,395,086**	**3,452,636**

BANK OF BAHRAIN & KUWAIT B.S.C.

بنك البحرين والكويت

(Incorporated in Bahrain with Limited Liability)

INDIAN BRANCHES

SCHEDULES FORMING PART OF PROFIT AND LOSS ACCOUNT

	Year Ended 31.03.2012 ₹ (000's)	Year Ended 31.03.2011 ₹ (000's)
SCHEDULE 13 – INTEREST EARNED		
I Interest/Discount on Advances/Bills	544,359	391,289
II Income on Investments (net of premium amortised ₹ 4,676 in 000's) (Previous year ₹ 4,676 in 000's)	209,555	121,490
III Interest on balance with Reserve Bank of India and other inter-bank funds	3,090	4,049
IV Others (includes interest on income tax refund of ₹ 2,592) (Previous Year ₹ 2,893 in 000's)	2,592	2,893
Total	**759,596**	**519,721**
SCHEDULE 14 – OTHER INCOME		
I Commission, Exchange and Brokerage	58,710	44,143
II Profit/(Loss) on sale of Investments (net)	536	657
III Profit/(Loss) on sale of assets (net)	482	160
IV Profit/(Loss) on Exchange Transactions (net)	15,453	29,474
V Income earned by way of dividends, etc. from subsidiaries, companies, joint venture abroad/ in India	–	–
VI Processing Fee	28,924	11,546
VII Miscellaneous Income	2,523	10,037
Total	**106,628**	**96,017**

	Year Ended 31.03.2012 ₹ (000's)	Year Ended 31.03.2011 ₹ (000's)
SCHEDULE 15 – INTEREST EXPENDED		
I Interest on Deposits	200,436	190,859
II Interest on RBI/Inter-bank borrowings	48,126	18,626
III Others representing hedging cost	40,195	27,426
Total	**288,757**	**236,911**
SCHEDULE 16 – OPERATING EXPENSES		
I Payment to and provisions for employees	87,947	82,829
II Rent, Taxes and Lighting	39,919	33,929
III Printing and Stationary	1,890	2,221
IV Advertisement and Publicity	1,305	600
V Depreciation on Bank's Property	14,553	20,927
VI Directors' Fees, Allowances and Expenses	–	–
VII Auditors' Fees and Expenses	717	600
VIII Law Charges	644	957
IX Postage, Telegrams, Telephones etc.	4,054	4,493
X Repairs and Maintenance	8,355	4,800
XI Insurance	6,982	6,841
XII Other Expenditure	19,420	14,573
Total	**185,786**	**172,770**

SCHEDULE 17: SIGNIFICANT ACCOUNTING POLICIES

1. **Basis of preparation**

   The accompanying financial statements have been prepared in accordance with historical cost convention on accrual basis except as otherwise stated and in accordance with the generally accepted accounting principles and statutory provisions prescribed under the Banking Regulations Act 1949, circulars and guidelines issued by the Reserve Bank of India (RBI), Notified accounting standards by Companies (Accounting Standards) Rules, 2006 to the extent applicable and current practices prevailing within the banking industry in India.

2. **Use of estimates**

   The preparation of financial statements requires the Management to make estimates and assumptions that affect the reported amounts of assets and liabilities (including contingent liabilities) as of the date of the financial statements and the reported income and expenses for the reporting period. Management believes that the estimates used in the preparation of the Financial Statements are prudent and reasonable. Future results could differ from these estimates. Any revisions to accounting estimates are recognized prospectively in the current and future periods.

3. **Transaction involving foreign exchange**

   a) Monetary assets and liabilities denominated in foreign currencies and outstanding forward exchange contracts except foreign currency deposit swaps are revalued at the year end exchange rates notified by the Foreign Exchange Dealers' Association of India (FEDAI) and the resultant gains or losses are recognised in Profit and Loss Account.

   b) Income and expenditure in foreign currencies are translated at the rates prevailing on the date of the transaction.

   c) Acceptances, endorsements and other obligations in foreign currencies are stated at the year end exchange rates notified by FEDAI.

d) Foreign currency swaps are marked to market using respective discount rates for foreign currency cash flows. All transactions are then recorded at spot rates notified by FEDAI. The profit or loss on revaluation is recorded in the profit and loss account and is included in other assets/other liabilities. The notional values of these swaps are recorded as contingent liabilities. The premium or discount on swap contracts hedging the foreign currency risk is amortised over the period of the swap contract in accordance with FEDAI guidelines.

4. Investments

For presentation in the Balance sheet, investments (net of provisions) are classified under the following heads – Government securities, Other approved securities, Shares, Debentures and Bonds, Subsidiaries and Joint Ventures and Others, in accordance with Third Schedule to the Banking Regulation Act, 1949.

Accounting and Classification

As per the guidelines for investments laid down by the Reserve Bank of India, the investment portfolio of the Bank is classified under "Held to Maturity", "Available for Sale" and "Held for Trading" categories.

Valuation

Investments classified under ''Held to Maturity'' are carried at acquisition cost unless it is more than the face value in which case, the premium is amortised over the period remaining to maturity and is disclosed in Schedule 13 after netting off from Interest Income on Investments.

Investments classified under ''Available for Sale'' and "Held for Trading" are valued at lower of cost or market value, in aggregate for each balance sheet classification and net depreciation in aggregate for each balance sheet classification is recognised in the Profit and Loss Account.

Treasury Bills are valued at carrying cost.

Market value, in case of Government and other approved securities, for which quotes are not available, is determined on the basis of the 'yield to maturity' rates indicated by Primary Dealers Association of India (PDAI) jointly with the Fixed Income Money Market and Derivatives Association of India (FIMMDA).

Investments where interest/dividend is not serviced regularly are classified in accordance with prudential norms for classification, valuation and operation of Investment Portfolio by Banks prescribed by the Reserve Bank of India.

Transfer between categories

Reclassification of investments from one category to the other, if done, is in accordance with RBI guidelines and any such transfer is accounted for at the acquisition cost/book value/market value, whichever is lower, as at the date of transfer. Depreciation, if any, on such transfer is fully provided for.

Sale of Investments under Held to Maturity

Realized gains on investments under Held to Maturity ("HTM") category are recognized in the profit and loss account and subsequently appropriated, from the profit available for appropriation, if any, to capital reserve account in accordance with RBI guidelines after adjusting for income tax and appropriations to the statutory reserve.

Accounting for repos/reverse repos

Repo/Reverse repo transactions are disclosed as borrowing/lending transactions and correspondingly the expense and income thereon are treated as interest. Depreciation in their value, if any, compared to their original cost, is recognised in the Profit and Loss Account.

5. Advances and Provisions

Advances are stated net of bills re-discounted, specific loan loss provisions and unrealised interest on non-performing advances. Specific provision for loan losses is made in respect of non-performing advances are in accordance with or higher than the prudential norms on income recognition, asset classification and provisioning pertaining to Advances laid down by the Reserve Bank of India.

Provision for standard advances is made at a rate not lesser than the rate prescribed by the Reserve Bank of India.

6. Fixed Assets and Depreciation

a) Fixed Assets are stated at original cost of acquisition including taxes, duties, freight and the incidental expenses related to acquisition and installation less accumulated depreciation.

b) Depreciation is provided on a straight line basis over the estimated useful life of the asset at the rates mentioned below:

Assets	Rate
Vehicle	20.00%
Equipment	20.00%
Furniture	20.00%
Hardware & Software	33.33%
Leasehold Improvements	Over 5 years or the primary period of the lease whichever is lower

Assets individually costing ₹ 5,000/- and below are fully depreciated in the month they are put to commercial use.

c) Assets purchased during the year are depreciated from the month that the asset has been put to use in the year. Assets disposed off during the year are depreciated upto the month before the date of disposal.

d) The Bank considers fixed assets as corporate assets of the banking business (cash-generating unit) as a whole. The Bank assesses at each balance sheet date whether there is any indication that an asset may be impaired and provides for impairment loss, if any, in the profit and loss account.

7. Lease Transactions

Leases where the lessor effectively retains substantially all the risks and benefits of ownership of the leased item, are classified as operating leases. Lease payments for assets taken as non-cancelable lease are recognized as an expense in the Profit and Loss Account on a straight line basis over the lease term.

8. Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured.

a) Interest income on advances, other than on Non-Performing Advances, is recognised on accrual basis.

b) Income from investments other than non-performing investments is accounted for on accrual basis except dividend on shares of Corporates and Mutual Funds, if any, which is accounted for on cash basis.

c) Interest income on Non-Performing Assets is recognised only on realisation in accordance with the norms prescribed by the Reserve Bank of India.

d) Commission income on letters of credit is accounted on issuance of the letter of credit. Loan processing fees is recognised at inception of the loan. Guarantee commission exceeding ₹ 1,00,000/- is accrued on a time proportion basis over the period of guarantee.

9. Employee Benefits

a) Gratuity

The Bank operates a Gratuity Fund Scheme and the contributions are remitted to a Trust established for this purpose. The Bank makes annual contributions to the Fund based on actuarial valuation carried out by an independent external actuary using the projected unit credit method. The annual contribution payable/paid is charged to the Profit and Loss Account.

b) Provident Fund

The Bank operates a Provident Fund Scheme to which it contributes an amount on monthly basis at a determined rate. The contribution is remitted to a Trust established by the Bank for this purpose and such contribution is charged to the Profit and Loss Account. All employees of the Bank are eligible to receive benefits under the Provident Fund. Interest is payable to the members of such trust at a rate which shall not be lower than the statutory rate of interest declared by the Central Government. Shortfall if any, between the interest earned by the trust and the minimum amount to be distributed is provided for in the year to which it relates.

c) Compensated Absences

The bank provides for long term compensated absences on the balance sheet date based on an actuarial valuation carried out by an independent external actuary.

Short term compensated absences are provided for without discounting the liability.

10. Taxation

The Bank makes provision for Income-tax after considering both current and deferred taxes. The tax effect of timing differences between the book profit and taxable profits are reflected through deferred tax asset (DTA)/deferred tax liability (DTL).

Current Tax is determined in accordance with the provisions of Income Tax Act, 1961 and rules framed there under.

Wealth Tax is determined in accordance with the provisions under the Wealth Tax Act, 1957.

Deferred taxation is provided on timing differences, using the liability method between the accounting and tax statement on income and expenses.

Deferred tax is measured based on the tax rates and the tax laws enacted or substantively enacted at the balance sheet date. Deferred tax assets are recognised only to the extent that there is reasonable certainty that sufficient future taxable income will be available against which such deferred tax assets can be realised. In situations where the Bank has unabsorbed depreciation or carry forward tax losses, all deferred tax assets are recognised only if there is virtual certainty supported by convincing evidence that they can be realised against future taxable profits.

At each balance sheet date the Bank re-assesses unrecognised deferred tax assets. It recognises unrecognised deferred tax assets to the extent that it has become reasonably certain or virtually certain, as the case may be that sufficient future taxable income will be available against which such deferred tax assets can be realised.

The carrying amount of deferred tax assets are reviewed at each balance sheet date. The Bank writes-down the carrying amount of a deferred tax asset to the extent that it is no longer reasonably certain or virtually certain, as the case may be, that sufficient future taxable income will be available against which deferred tax asset can be realised.

11. Net Profit

The net profit disclosed in Profit and Loss Account is after:

a) Provision for current taxes, wealth tax and deferred taxes on income in accordance with statutory requirements;

b) Provision/write off for loan losses and Investments;

c) Provision for contingency and other usual and necessary provisions.

12. Provisions, Contingent Assets And Contingent Liabilities

The Bank establishes provisions when it has a present obligation as a result of past event (s) that probably requires an outflow of resources embodying economic benefit to settle the obligation will be required and a reliable estimate can be made of such an obligation. Such provisions are not discounted to present value. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Contingent assets are not recognized in the Financial Statements. A disclosure of Contingent Liability is made when there is:

i. A possible obligation, arising from a past event (s), the existence of which will be confirmed by occurrence or non-occurrence of one or more uncertain future events not within the control of the Bank or

ii. Any present obligation that arises from past events but is not recognized because:

   a. It is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation;

   b. A reliable estimate of the amount of obligation cannot be made.

13. Cash and Cash Equivalents

Cash and cash equivalents include cash in hand, balances with Reserve Bank of India, balances with other banks/institutions and money at call and short notice (including the effect of changes in exchange rates on cash and cash equivalents in foreign currency).

SCHEDULE 18: NOTES TO ACCOUNTS

Disclosure requirements as per RBI guidelines

1. The break up of "Provisions & Contingencies" as appearing in the Profit and Loss Account is as under:

(₹ in crore)

Particulars	Year ended 31.03.2012	Year ended 31.03.2011
Specific Provision for Non Performing Advances	3.29	5.76
Bad Debts written off	0.02	–
Provision for Non Performing Advances written back	(0.19)	(0.69)
Provision for depreciation on Investments	1.09	0.29
Other assets written off	–	0.10
Provision for other assets written off	–	(0.10)
Provision for income tax (including earlier years)	14.30	5.88
MAT credit entitlement	–	(3.84)
Provision for deferred tax	(1.23)	(1.03)
Provision for wealth tax	0.03	0.02
Provision for country risk	0.11	0.01
Provision for standard assets	1.04	(0.10)
Total	**18.46**	**6.30**

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2. The Capital to Risk Assets Ratio, as assessed by the Bank on the basis of the guidelines issued by the Reserve Bank of India is as under:
As per Basel II:

Capital Adequacy Ratio	31.03.2012	31.03.2011
i) CRAR (%)	38.60%	23.28%
ii) CRAR - Tier I Capital (%)	38.18%	22.89%
iii) CRAR - Tier II Capital (%)	0.42%	0.39%
iv) Percentage of the shareholding of the Government of India in nationalized banks	N.A.	N.A.
v) Amount of subordinated debt raised as Tier–II capital	Nil	Nil

3. **Business Ratios:**

Particulars	31.03.2012	31.03.2011
a. Net NPAs to Net Advances	2.52%	0.52%
b. Interest income as a percentage to working funds ($)	8.46%	7.09%
c. Non interest income as a percentage to working funds ($)	1.19%	1.31%
d. Operating Profit as a percentage to working funds ($)	4.36%	2.81%
e. Return on assets (@)	2.14%	1.99%
f. Business (Deposits plus Advances) per employee (#)	₹ 13.36 Crore	₹ 8.96 Crore
g. Profit per employee (#)	₹ 0.21 Crore	₹ 0.14 Crore

($) Working funds are reckoned as average of total assets (excluding accumulated losses, if any) as reported to Reserve Bank of India in form X during the 12 months of the financial year.
(@) Assets are reckoned as average of total assets less accumulated losses as at beginning of the year and as at end of the year.
(#) Productivity ratios are based on year end employee numbers.

4. **Provision Coverage Ratio (PCR)**
The provision coverage ratio of the Bank as on March 31, 2012 computed as per the RBI circular no. DBOD.No.BP.BC. 64 /21.04.048/2009-10 dated December 1, 2009 on 'Provision Coverage for Advances' is 41.74% (previous year 81.05%).

5. Miscellaneous income under Schedule 14 includes recovery from written off account amounting to ₹ 0.25 crore (previous year ₹ 1.00 crore).

6. **Maturity Profile:**
As at March 31, 2012 (₹ in crore)

Maturity Profile	1 day	2-7 days	8-14 days	15-28 days	29 days-3 months	3-6 months	6-12 months	1-3 years	3-5 years	Over 5 years	Total
Deposits	3.45	25.66	26.57	16.80	72.63	58.21	215.31	251.66	1.59	–	671.88
Borrowings	–	136.14	–	–	76.05	9.00	–	–	–	–	221.19
Loans & Advances	10.20	21.81	20.98	114.55	63.43	79.34	85.99	220.94	22.72	3.59	643.55
Investments	–	–	34.46	5.00	109.91	18.21	74.52	95.46	0.45	1.46	339.47
Foreign currency assets	117.83	16.14	2.41	46.56	32.24	41.65	8.53	42.47	1.70	4.05	313.58
Foreign currency liabilities	1.03	72.76	10.49	4.08	89.60	33.47	54.19	116.40	0.02	–	382.04

In computing the above information, certain estimates and assumptions have been made which have been relied upon by the auditors.

As at March 31, 2011 (₹ in crore)

Maturity Profile	1 day	2-7 days	8-14 days	15-28 days	29 days-3 months	3-6 months	6-12 months	1-3 years	3-5 years	Over 5 years	Total
Deposits	2.66	14.76	21.39	9.73	69.52	51.63	159.61	182.42	3.05	–	514.77
Borrowings	–	41.50	9.50	44.60	–	–	–	–	–	–	95.60
Loans & Advances	7.62	22.58	25.80	19.98	88.72	4.83	10.29	176.62	21.56	4.90	382.90
Investments	–	24.56	21.63	17.48	22.01	16.59	50.56	77.88	0.96	1.52	233.19
Foreign currency assets	43.96	24.68	12.70	10.92	26.27	0.55	1.19	22.46	5.37	2.88	150.98
Foreign currency liabilities	5.79	2.75	4.65	49.50	14.42	28.20	115.65	12.32	0.06	–	233.34

In computing the above information, certain estimates and assumptions have been made which have been relied upon by the auditors.

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7. Movement in Non-Performing Advances:

(₹ in crore)

Particulars	2011-2012			2010-2011		
	Gross NPA (net of interest in suspense)	Provisions	Net NPA	Gross NPA (net of interest in suspense)	Provisions	Net NPA
Opening balance	10.45	6.90	3.55	10.91	1.83	9.08
(+) Additions	22.78	3.29	19.49	1.13	5.76	(4.63)
(–) Recoveries	2.42	0.05	2.37	1.59	0.69	0.90
(–) Upgradations	3.07	0.12	2.95	–	–	–
(–) Write off	0.02	0.02	–	–	–	–
Closing balance	**27.72**	**10.00**	**17.72**	**10.45**	**6.90**	**3.55**
Less: Floating Provision	–	–	(1.57)	–	–	(1.57)
Net Closing balance	–	–	**16.15**	–	–	**1.98**

* In accordance with RBI circular no. DBOD.NO.BP.BC. 89/21.04.048/2005-06 dated June 22, 2006 on 'Prudential norms on creation and utilization of floating provision' the Bank has two options being:

a) Deducting the existing floating provisions from gross NPAs to arrive at net NPAs or

b) Reckoning it as part of Tier II capital subject to the overall ceiling of 1.25% of total Risk Weighted Assets.

The bank has exercised the option of deducting such floating provisions from Gross NPAs to arrive at net NPAs.

8. INVESTMENTS

i. Details of Investments:

(₹ in crore)

Particulars	2011-12	2010-11
1) Value of Investments		
i) Gross Value of Investments		
(a) In India	343.78	236.41
(b) Outside India		–
ii) Provision for Depreciation/Premium Charged		
(a) In India	(4.31)	(3.22)
(b) Outside India		–
iii) Net Value of Investments		
(a) In India	339.47	233.19
(b) Outside India		–
2) Movement of provisions held towards depreciation/premium charged		
i) Opening balance	3.22	2.93
ii) Add: Additions during the year	1.09	0.29
iii) Less: Write off/write back of excess provision during the year	–	–
iv) Closing balance	4.31	3.22

ii. Classification of net Investments under various categories is as under:

(₹ in crore)

Particulars	2011-12	2010-11
Held for Trading		
a) Approved Securities	73.98	–
b) Unapproved Securities	–	24.56
Available for Sale		
a) Approved Securities	83.65	99.12
b) Unapproved Securities	72.80	–
Held for Maturity		
a) Approved Securities	89.75	90.22
b) Unapproved Securities	19.29	19.29
Total	**339.47**	**233.19**

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9. i) **Issuer composition of Non SLR investments**

2011-2012

(₹ in crore)

No.	Issuer	Amount	Extent of private placement	Extent of 'below investment grade' securities	Extent of 'unrated' securities (*)	Extent of 'unlisted' securities(*)
1	PSU's –	–	–	–	–	
2	FI's (SIDBI deposits)	19.29	19.29		19.29	19.29
3	Banks (certificate of deposits)	–	–	–	–	–
4	Private corporates	73.18	73.18	–	–	24.53
5	Subsidiaries/Joint ventures	–	–	–	–	–
6	Others	1.34	1.34	1.34	1.34	1.34
7	Provision held towards depreciation	(1.73)				
	Total	**92.08**	**93.81**	**1.34**	**20.63**	**45.16**

2010-2011

(₹ in crore)

No.	Issuer	Amount	Extent of private placement	Extent of 'below investment grade' securities	Extent of 'unrated' securities	Extent of 'unlisted' securities
1	PSU's –	–	–	–	–	
2	FI's (SIDBI deposits)	19.29	19.29	–	19.29	19.29
3	Banks (certificate of deposits)	24.56	24.56	–	–	–
4	Private corporates	–	–	–	–	–
5	Subsidiaries/ Joint ventures	–	–	–	–	–
6	Others	1.34	1.34	1.34	1.34	1.34
7	Provision held towards depreciation	(1.34)				
	Total	**43.85**	**45.19**	**1.34**	**20.63**	**20.63**

ii) **Non performing Non-SLR investments**

(₹ in crore)

Particulars	2011-2012	2010-2011
Opening balance	1.34	1.34
Additions during the year since 1st April	–	–
Reductions during the above period	–	–
Closing balance	1.34	1.34
Total provisions held	**1.34**	**1.34**

10. **Provision for depreciation on Investments:**

(₹ in crore)

Particulars	2011–2012	2010-2011
Opening Balance	3.22	2.93
Add: Provisions for depreciation made during the year	1.09	0.29
Less: Write back of provisions during the year	–	–
Closing balance	**4.31**	**3.22**

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11. Information on repos during the year (including Liquidity Adjustment facility with the Reserve Bank of India) (in face value terms):

2011-2012 (₹ in crore)

	Minimum outstanding during the year (@)	Maximum outstanding during the year	Daily average outstanding during the year (#)	As on March 31, 2012
Securities sold under repos	10.50	63.00	22.97	47.25
Securities purchased under reverse repos	5.25	52.50	1.48	15.75

2010-2011 (₹ in crore)

	Minimum outstanding during the year (@)	Maximum outstanding during the year	Daily average outstanding during the year (#)	As on March 31, 2011
Securities sold under repos	5.25	42.00	4.07	42.00
Securities purchased under reverse repos	5.25	78.75	6.21	Nil

(@) Minimum outstanding is considered only for those days when such transactions were outstanding.

(#) Average is based of transactions outstanding divided by 366 for 2012 and 365 days for 2011.

12. Lending to Sensitive Sectors

(A) Exposure to Real Estate Sector

(₹ in crore)

	Category	2011-2012	2010-2011
A	Direct exposure (*)		
	(i) Residential Mortgages – Lending fully secured by mortgages on residential property that is or will be occupied by the borrower or that is rented	0.91	0.59
	– of which individual housing loans eligible for inclusions in priority sector advances	–	–
	(ii) Commercial Real Estate –	23.81	22.88
	(iii) Investments in Mortgage Backed Securities (MBS) and other securities exposure –		
	a. Residential	–	–
	b. Commercial Real Estate	–	–
B	Indirect Exposure Fund based and non-fund based exposures on National Housing Bank (NHB) and Housing Finance Companies (HFCs).	–	–
	Total Exposure to Real Estate Sector	**24.72**	**23.47**

(*) In some cases the lending is based on collateral security which is in the nature of charge on real estate. However, these exposures are not considered as exposure to real estate sector since neither the borrowers are engaged in real estate development activity nor the credit facility used for real estate development.

(B) Exposure to Capital Market

(₹ in crore)

Sr. No.	Particulars	2011-2012	2010-2011
(i)	direct investment in equity shares, convertible bonds, convertible debentures and units of equity oriented mutual funds the corpus of which is not exclusively invested in corporate debt;	–	–
(ii)	advances against shares/bonds/debentures or other securities or on clean basis to individuals for investment in shares (including IPOs / ESOPs), convertible bonds, convertible debentures, and units of equity-oriented mutual funds;	0.53	0.75

(B) Exposure to Capital Market (*Continued)*

(₹ in crore)

Sr. No.	Particulars	2011-2012	2010-2011
(iii)	advances for any other purposes where shares or convertible bonds or convertible debentures or units of equity oriented mutual funds are taken as primary security;	0.20	0.52
(iv)	advances for any other purposes to the extent secured by the collateral security of shares or convertible bonds or convertible debentures or units of equity oriented mutual funds i.e. where the primary security other than shares/convertible bonds/convertible debentures/units of equity oriented mutual funds does not fully cover the advances;	–	–
(v)	secured and unsecured advances to stockbrokers and guarantees issued on behalf of stockbrokers and market makers;	–	–
(vi)	loans sanctioned to corporates against security of shares/bonds/debentures or other securities or on clean basis for meeting promoter's contribution to the equity of new companies in anticipation of raising resources;	–	–
(vii)	bridge loans to companies against expected equity flows / issues;	–	–
(viii)	underwriting commitments taken up by banks in respect of primary issue of shares or convertible bonds or convertible debentures or units of equity oriented mutual funds;	–	–
(ix)	financing to stockbrokers for margin trading;	–	–
(x)	all exposures to Venture Capital Funds (both registered and unregistered);	–	–
	Total Exposure to Capital Market	**0.73**	**1.27**

Exposure is higher of limits sanctioned or the amount outstanding as at the year end.

13. Letters of Comfort (LoCs):

(₹ in crore)

Particulars	2011-12	2010-11
No. of LoCs issued during the year	58	18
Financial impact of LoCs issued during the year	–	–
Cumulative financial obligation under the LoCs issued in the past and outstanding	51.55	37.27

14. Subordinated Debt raised during the year ₹ Nil (Previous year ₹ Nil)

15. Information with respect to loan assets subjected to restructuring during the year: 2011-12

(₹ in crore)

Category	Particulars	CDR m Mechanism	SME Debt Restructuring	Others
Standard Advances Restructured	No. of Borrowers	–	–	–
	Amount Outstanding	–	–	–
	Sacrifice (diminution in the fair value)	–	–	–
Sub-Standard Advances Restructured	No. of Borrowers	–	–	–
	Amount Outstanding @	–	–	–
	Sacrifice (diminution in the fair value)	–	–	–
Doubtful Advances Restructured	No. of Borrowers	–	–	–
	Amount Outstanding	–	–	–
	Sacrifice (diminution in the fair value)	–	–	–
Total	**No. of Borrowers**	–	–	–
	Amount Outstanding	–	–	–
	Sacrifice (diminution in the fair value)	–	–	–

@ Classification and outstanding are as at the year ended March 31, 2012.

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2010-11 (₹ in crore)

Category	Particulars	CDR Mechanism	SME Debt Restructuring	Others
Standard Advances Restructured	No. of Borrowers	–	–	–
	Amount Outstanding	–	–	–
	Sacrifice (diminution in the fair value)	–	–	–
Sub-Standard Advances Restructured	No. of Borrowers	–	–	–
	Amount Outstanding @	–	–	–
	Sacrifice (diminution in the fair value)	–	–	–
Doubtful Advances Restructured	No. of Borrowers	–	–	–
	Amount Outstanding	–	–	–
	Sacrifice (diminution in the fair value)	–	–	–
Total	**No. of Borrowers**	**–**	**–**	**–**
	Amount Outstanding	**–**	**–**	**–**
	Sacrifice (diminution in the fair value)	**–**	**–**	**–**

@ Classification and outstanding are as at the year ended March 31, 2011.

16. The Bank has not extended any finance for margin trading during the year.

17. The Bank has/had exposure in excess of the single borrower prudential exposure ceiling (including non-performing advances) in the following cases during the year:

Ankur Drugs and Pharma Ltd.
Madhucon Projects Ltd.
Arch Pharmalabs Ltd.
Godrej Agrovet Limited
Era Buildsys Ltd.
Electronic Corporation of India
Jyoti Structures Limited
NCC Ltd.
Vivimed Labs Ltd.
IL&FS Transportation Networks Ltd.
Bombay Dyeing and Manufacturing Co. Ltd.
Sew Infrastructure Ltd.
Laurus Lab Pvt. Ltd.

However the exposure in all the above cases is approved by the Risk Management Committee (RMC) and is within the enhanced prescribed ceiling of 20% and 25% (for infrastructure lending).

18. Details of financial assets sold to Securitisation/Reconstruction Company for Asset Reconstruction during the year:

(₹ in crore)

	Item	2011-2012	2010-2011
(i)	No. of accounts	Nil	Nil
(ii)	Aggregate value (net of provisions) of accounts sold to SC/RC	Nil	Nil
(iii)	Aggregate consideration	Nil	Nil
(iv)	Additional consideration realized in respect of accounts transferred in earlier years	Nil	Nil
(v)	Aggregate gain/loss over net book value.	Nil	Nil

19. **Country Risk Management information:**

(₹ in crore)

Risk category	As on March 31, 2012		As on March 31, 2011	
	Exposures	Provisions	Exposures	Provisions
Insignificant	146.50	0.08	54.59	0.03
Low	82.38	0.10	54.78	0.03
Moderate	–	–	–	–
High	0.75	–	–	–
Very High	2.63	–	–	–
Restricted	–	–	–	–
Total	**232.26**	**0.18**	**109.37**	**0.06**

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20. Movement in Floating Provision:

(₹ in crore)

Particulars	2011-2012	2010-2011
Opening Balance	1.57	1.57
Add: Provisions made during the year	–	–
Less: Draw-down for allocation to NPA account	–	–
Closing balance	**1.57**	**1.57**

21. Details of non-performing financial assets purchased/sold:

A. Details of non-performing financial assets purchased

(₹ in crore)

Particulars	2011-2012	2010-2011
1. (a) No. of accounts purchased during the year	Nil	Nil
(b) Aggregate outstanding	Nil	Nil
2. (a) Of these, number of accounts restructured during the year	Nil	Nil
(b) Aggregate outstanding	Nil	Nil

B. Details of non-performing financial assets sold

(₹ in crore)

Particulars	2011-12	2010-11
1. No. of accounts sold	Nil	Nil
2. Aggregate outstanding	Nil	Nil
3. Aggregate consideration received	Nil	Nil

22. Provision on Standard Asset: (₹ in crore)

As on 31.03.2012: ₹ 2.74

As on 31.03.2011: ₹ 1.70

23. Concentration of Deposits, Advances, Exposures and NPAs:

Concentration of Deposits

(₹ in crore)

Particulars	2011-12	2010-11
Total deposits of twenty largest depositors	232.93	172.23
% of deposits of twenty largest depositors to total deposits of the Bank	34.67%	33.46%

Concentration of Advances (net)

(₹ in crore)

Particulars	2011-12	2010-11
Total Advances to twenty largest borrowers	551.99	330.76
% of Advances to twenty largest borrowers to total advances of the Bank	68.92%	72.13%

*Advances are computed as per the definition of credit exposure including derivatives furnished in RBI master circular on exposure norms DBOD.No.Dir.BC. 7/13.03.00/2011-12 dated July 1, 2011.

Note:- Advances to borrowers exclude exposure to banks.

Concentration of Exposures (net)

(₹ in crore)

Particulars	2011-12	2010-11
Total Exposure to twenty largest borrowers/customers	582.57	330.76
% of exposures to twenty largest borrowers/customers to total exposure of the Bank on borrowers/customers	66.65%	72.13%

*Exposure is computed based on credit and investment exposure as prescribed in RBI circular on exposure norms DBOD. No.Dir. BC. 7/13.03.00/2011-12 dated July 1, 2011.

Note:- Exposure to borrowers/customers exclude exposure to banks.

Concentration of NPAs (net)

(₹ in crore)

Particulars	2011-12	2010-11
Total Exposure to top four NPA accounts	15.95	1.98

Note:- (After netting off floating provisions)

24. Sector-wise NPAs (net):

Sr. No.	Sector	% of NPAs to Total Advances in that Sector 2011-12	% of NPAs to Total Advances in that Sector 2010-11
1	Agriculture & allied activities	Nil	Nil
2	Industry (Micro & small, medium and large)	2.56	Nil
3	Services	Nil	Nil
4	Personal Loans	1.06	Nil
5	Others	24.14	23.77

*Above information is provided as per the internal classification by management.

25. Overseas Assets, NPAs and Revenue:

(₹ in crore)

Particulars	2011-12	2010-11
Total Assets	Nil	Nil
Total NPAs	Nil	Nil
Total Revenue	Nil	Nil

26. Off-balance Sheet SPVs sponsored:

Particulars	2011-12	2010-11
Domestic:-		
Name of the SPV sponsored	Nil	Nil
Overseas:-		
Name of the SPV sponsored	Nil	Nil

27. Fee/remuneration received in respect of bancassurance business:

(₹ in crore)

Sr. No.	Nature of Income	2011-12	2010-11
1.	For selling life insurance policies	0.02	0.08
2.	For selling non-life insurance policies	–	–
3.	For selling mutual fund products	0.68	0.48

28. Unsecured Advances:

(₹ in crore)

Particulars	2011-12	2010-11
Total amount of advances for which intangible securities such as charge over rights, licenses, authority etc has been taken	Nil	Nil
Estimated value of intangibles collaterals as stated above	Nil	Nil

29. Disclosure on derivatives:

The Bank does not have any exposure to Forward Rate Agreement/Interest Rate Swap/Exchange Traded Interest Rate Derivatives and thus has limited exposure to derivatives trading namely foreign exchange contracts.

a. Qualitative Disclosure

1) The structure and organisation for management of risk in derivatives trading:

Treasury operation is segregated into three different departments viz. front office, mid-office and back office. The primary role of front office is to conduct business, that of mid-office is to ensure compliance in accordance with set norms and policies and that of back office is to process/settle the transactions.

The Bank has in place a Risk Management Committee (RMC) which reviews/approves policies and procedures and reviews adherence to various risk parameters and prudential limits.

2) The scope and nature of risk measurement, risk reporting and risk monitoring systems:

a) Risk Measurement:

For forward foreign exchange contracts, risk is measured through a daily report called Value at Risk (VaR), which computes VaR on the foreign exchange, gaps using FEDAI VaR factors (at 99% confidence level).

b) Risk Reporting and Risk monitoring systems:

Bank has risk management policies designed to identify and analyse risks, to set appropriate risk limits and to monitor these risks and limits on an ongoing basis by means of various reports/MIS.

c) The Bank has the following reports/systems in place which are reviewed by the top management:

(i) VaR
(ii) Net open position
(iii) AGL / IGL
(iv) Dealer wise limits
(v) Stop loss limits
(vi) Bankline limits

3) Policies for hedging and/or mitigating risk and strategies and processes for monitoring the continuing effectiveness of hedges/ mitigants:

The Bank has the following two policy papers in place, approved at RMC:

(i) Integrated Foreign Exchange policy and
(ii) Asset – Liability Management (ALM) Policy

The Bank monitors the hedges/mitigants on a continuous basis through daily and monthly reports which are reviewed by the dealing room/top management.

4) Accounting policy for recording hedge and non-hedge transactions, recognition of income, premiums and discounts, valuation of outstanding contracts, provisioning and credit risk mitigation
As stated in Schedule 17: Principal accounting policies point no 3 (a) and (d).

b. Quantitative Disclosure

(₹ in crore)

Sr. No	Particular	Currency swaps (Forward Foreign exchange contracts)
1	Derivatives (Notional Principal Amount)	
	a) For hedging	–
	b) For trading	511.36
2	Marked to Market Positions	
	a) Asset (+)	12.86
	b) Liability (–)	(8.67)
3	Credit Exposure	23.09
4	Likely impact of one percentage change in interest rate (100*PV01)	
	a) on hedging derivatives	–
	b) on trading derivatives	–
5	Maximum and Minimum of 100*PV01 observed during the year	
	a) on hedging	–
	b) on trading	–

30. No penalties were levied by Reserve Bank of India under section 46 (4) of the Banking Regulation Act, 1949.

31. Draw down from Reserves:

The Bank has not drawn down any reserves during the year ended March 31, 2012 (previous year Nil).

32. Analysis and Disclosure of complaints:

A. Customer Complaints

Sr. No.	Particulars	2011-12	2010-11
(a)	No. of complaints pending at the beginning of the year	Nil	Nil
(b)	No. of complaints received during the year	Nil	4
(c)	No. of complaints redressed during the year	Nil	4
(d)	No. of complaints pending at the end of the year	Nil	Nil

*Data provided by management and relied upon by the auditors.

B. Awards passed by the Banking Ombudsman

Sr. No.	Particulars	2011-12	2010-11
(a)	No. of unimplemented Awards at the beginning of the year	Nil	Nil
(b)	No. of Awards passed by the Banking Ombudsmen during the year	Nil	Nil
(c)	No. of Awards implemented during the year	Nil	Nil
(d)	No. of unimplemented Awards at the end of the year	Nil	Nil

* Data provided by management and relied upon by the auditors.

33. Sale and transfer to/from HTM category

There was no sale and transfer to/from HTM category during the year (previous year Nil).

Disclosure requirements as per Accounting Standards (AS) issued by the Institute of Chartered Accountants of India (ICAI)

34. Employee Benefits (AS-15)

Gratuity

The following tables summarise the components of net benefit expense recognised in the profit and loss account and the funded status and amount recognised in the balance sheet for the respective plans.

Profit and Loss account: Net employee benefit expense (recognised in payment to and provision to employees)

(₹ in crore)

Particulars	2011-12	2010-11
Current service cost	0.09	0.15
Interest cost on benefit obligation	0.10	0.06
Expected return on plan assets	(0.06)	(0.05)
Net actuarial (gain)/loss recognised in the year	(0.16)	0.25
Past Service Cost	–	–
Cost of plan amendment	–	–
Net expenses	**(0.03)**	**0.41**
Actual return on plan assets	0.11	0.06

Balance Sheet: Details of provision for gratuity

(₹ in crore)

Particulars	2011-12	2010-11
Fair value of plan assets	1.16	0.78
Present value of obligations	1.13	1.19
Asset/(Liability)	0.03	(0.41)
Asset/Liability recognised in the balance sheet	0.03	0.41

Changes in the present value of the defined benefit obligation are as follows:

(₹ in crore)

Particulars	2011-12	2010-11
Opening defined benefit obligation	1.19	0.84
Interest cost	0.10	0.07
Current service cost	0.09	0.15
Past service cost	–	–
Cost of Plan Amendment	–	–
Benefits paid	(0.14)	(0.12)
Actuarial (gains)/losses on obligation	(0.11)	0.25
Closing defined benefit obligation	**1.13**	**1.19**

Changes in the fair value of plan assets are as follow:

(₹ in crore)

Particulars	2011-12	2010-11
Opening fair value of plan assets	0.78	0.66
Expected return	0.06	0.05
Contributions by employer	0.41	0.18
Benefits paid	(0.14)	(0.12)
Actuarial gains/(losses)	0.05	0.01
Closing fair value of plan assets	**1.16**	**0.78**

Experience adjustments:

(₹ in crore)

Particulars	2011-12	2010-11
Experience adjustments on plan liabilities (Gains)/Loss	(0.06)	0.23
Experience adjustments on plan assets Gain/(Loss)	0.04	0.01

Principal assumptions used in determining gratuity for the Bank's plans are shown below:

Particulars	2011-12	2010-11
Discount Rate (%) p.a.	8.50%	8.25%
Expected rate of return on assets (%) p.a.	8.50%	8.25%
Salary escalation rate (%) p.a.	8.00%	8.00%
Attrition Rate (%) p.a. : For first 5 years	25.00%	25.00%
: After 5 years	2.00%	2.00%

Compensated Absences

The actuarial liability of compensated absences of unencashable accumulated sick leaves of the employees of the Bank as of March 31, 2012 is given below:

(₹ in crore)

Particulars	2011-12	2010-11
Total actuarial liability for sick leave	0.15	0.13

Principal assumptions used in determining sick leave provision for the Bank's plans are shown below:

Particulars	2011-12	2010-11
Discount Rate (%) p.a.	8.50%	8.25%
Salary escalation rate (%) p.a.	8.00%	8.00%

The estimates of future salary increases, considered in actuarial valuation, take account of inflation, seniority, promotion and other relevant factors, such as supply and demand in the employment market.

Unamortised Pension and Gratuity Liabilities

Amortisation of pension and gratuity liabilities expenditure in terms of circular no. DBOD.No.BP.BC.80/21.04.018/2010-11 dated February 09, 2011 is Nil for the year under review (Previous Year: Nil).

35. Segment Reporting

Segment Information about Primary Business Segments for the year March 31, 2012

(₹ in crore)

Business Segments	Treasury	Corporate Banking	Retail Banking	Other Banking Operations	Total
Revenue	17.79	63.28	2.85	2.39	86.31
Unallocated Revenue					0.31
Total Segment revenue					86.62
Operating Profit	8.38	33.80	0.32	0.26	42.76
Unallocated operating profit					(3.60)
Net Operating Profit					39.16
Segment Result	7.30	29.70	0.15	0.26	37.41
Unallocated result					(3.60)
Total Segment Result					33.81
Income Taxes (net of deferred tax)					13.10
Net Profit					20.71
Other Information					
Segment Assets	433.17	719.58	21.42	0.88	1,175.05
Unallocated Assets					13.52
Total Assets					1,188.57
Segment Liabilities	223.41	219.28	466.26	0.37	909.32
Unallocated Liabilities					279.25
Total Liabilities					1,188.57

In computing the above information, certain estimates and assumptions have been made which have been relied upon by the auditors.

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Segment information for the year ended March 31, 2011

(i) Information about Primary Business Segments

(₹ in crore)

Business Segments	Treasury	Corporate Banking	Retail Banking	Other Banking Operations	Total
Revenue	14.79	40.78	3.30	2.37	61.24
Unallocated Revenue					0.33
Total Segment revenue					61.57
Operating Profit	5.32	17.10	0.64	0.42	23.48
Unallocated operating profit					(2.87)
Net Operating Profit					20.61
Segment Result	5.03	11.93	0.83	0.42	18.21
Unallocated result					(2.87)
Total Segment Result					15.34
Income Taxes (net of deferred tax)					1.04
Net Profit					14.30
Other Information					
Segment Assets	327.75	381.00	25.26	0.86	734.87
Unallocated Assets					10.96
Total assets					745.83
Segment Liabilities	98.14	142.53	385.48	6.89	633.04
Unallocated liabilities					112.79
Total liabilities					745.83

In computing the above information, certain estimates and assumptions have been made which have been relied upon by the auditors.

Notes: -

(i) The Bank operates as a single unit in India and as such has no identifiable geographical segments subject to dissimilar risk and returns. Hence no information regarding the same has been given.

(ii) The Bank is organised into three main business segments, namely:

- Treasury – primarily comprising of Dealing Room operations, trading/investments in Bonds and Government securities.
- Corporate Banking – primarily comprising of Wholesale Loans and Advances to Corporates, Investments in Corporate Bonds.
- Retail banking – Primarily comprising of retail loans & advances to customers.

(iii) The above segments are based on the currently identified segments taking into account the nature of services provided, the risks and returns, overall organisation structure of the Bank and the internal financial reporting system.

(iv) Segment revenue, results, assets and liabilities include the respective amounts identifiable to each of the segments and amounts apportioned/allocated on a reasonable basis.

(v) The classification of assets to the respective segments conform to the guidelines issued by RBI vide DBOD.No.BP. BC.81/21.01.018/2006-07 dated April 18, 2007.

(vi) Segment revenues stated above are aggregate of Schedule 13 – Interest income and Schedule 14 – Other Income with zero spread on account of transfer pricing.

36. Related Parties

Parent

Bank of Bahrain & Kuwait, Bahrain, its branches and representative office.

Subsidiaries of Parent

1. CrediMax
2. Invita
3. Global Payment Services
4. Capinnova Investment Bank

Associated Companies of Parent

1. Bahrain Commercial Facilities Company
2. Securities Investment Company
3. Bahrain Kuwait Insurance (BKIC)
4. Ithmaar Bank
5. Pension Fund Commission (PFA)
6. Social Insurance Organisation (GOSI)
7. Kuwait Investment Authority (KIA)
8. The Benefit Company
9. EBLA Computer Consultancy
10. Naseej Company
11. Alosra Bank
12. Shared Electronic Banking Services
13. Sakana Holistic Housing Solutions
14. Diyyar Al Harameen Al Ola Limited
15. Saudi MAIS Company for Medical Products

Key Management Personnel

Mr. V. Sankaran – Country Head India

In line with the RBI circular DBOD.BP.BC.No.16/21.04.018/2011-12 dated July 01, 2011 the Bank has not disclosed details pertaining to related party where under a category there is only one entity (i.e. Head Office & its branches). Similarly there has been only one entity/person under Key Management Personnel at any point of time and therefore those details are also not disclosed.

37. Operating Leases

a) Details of total of future minimum lease payments are as follows:

(₹ in crore)

Particulars	2011-12	2010-11
Not later than one year	3.75	2.47
Later than one year and not later than five years	3.43	Nil
Later than five years	Nil	Nil

b) Lease payments of ₹ 3.45 crore (previous year ₹ 2.89 crore) have been recognized in the statement of profit and loss for the year.

c) The lease agreements entered into pertain to use of premises (including fixed assets) at the branch. The lease agreements do not have any undue restrictive or onerous clauses other than those normally prevalent in similar agreement regarding use of assets, lease escalations, renewals and a restriction on sub-leases.

38. Deferred Taxes

In accordance with Accounting Standard 22 on "Accounting for taxes on income" issued by the Institute of Chartered Accountants of India, the Bank has recognized Deferred Tax Asset (DTA) on timing differences to the extent there is reasonable certainty based on contracts and arrangements in place which will enable the Deferred Tax Asset to reverse.

Items on which DTA is created are as follows:

(₹ in crore)

	As at March 31, 2012	As at March 31, 2011
Deferred Tax Assets		
Provision for doubtful debts	3.48	2.52
Amortisation of premium of HTM Investments	1.02	0.83
Provision for Employee Benefits	0.11	0.09
Bonus payable	0.18	0.16
Carried forward losses	0.00	0.04
Others	0.11	0.11
Total	**4.90**	**3.75**
Deferred Tax Liability		
Depreciation on Fixed Assets	0.74	0.81
Premises Rent (AS – 19)	0.00	0.01
Total	**0.74**	**0.82**
Net Deferred tax asset	**4.16**	**2.93**

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39. Provisions and contingencies

(i) Claims against the Bank not acknowledged as debts:

Includes legal proceeding in the normal course of business, which is disputed by the Bank.

No disclosure of disputed income tax demand as a contingent liability is considered necessary, as in the Bank's view, duly supported by expert legal opinion/judicial pronouncements and also based on the favorable decisions for the Bank in its own earlier appeals, that these demands are not sustainable.

(ii) Liabilities on account of forward contracts:

The Bank enters into forward exchange contracts with inter-bank participants on its own account and for customers. Forward exchange contracts are commitments to buy or sell foreign currency at a future date at the contracted rate.

(iii) Guarantees given on behalf of constituents, acceptances, endorsements and others

As a part of its normal banking activities, the Bank issues documentary credit and guarantees on behalf of its customers. Documentary credits such as letters of credit enhance the credit standing of the customers of the Bank. Guarantees generally represent irrevocable assurances that the Bank will make payments in the event of the customer failing to fulfill its financial or performance obligations.

40. Based on the available information, there are no outstanding dues towards principal amount or interest thereon remaining unpaid to any supplier covered under, Micro, Small and Medium Enterprises development Act, 2006 as at the end of the accounting year. Further, no interest was due or payable by the Bank to any supplier during the year under the provisions of the said Act.

41. Previous year figures have been regrouped wherever necessary to conform to current year's presentation.

For Bank of Bahrain & Kuwait B.S.C – Indian Branches

Sd/-
V. Sankaran
Country Head - India

Sd/-
Mehjabeen Saifi
Vice President Financial Control – India

Place: Mumbai
Dated: June 21, 2012

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Disclosures under the New Capital Adequacy Framework (BASEL II guidelines) for the year ended March 31, 2012

1. **Scope of application:**

   The bank has no subsidiary and hence no consolidation is applicable.

2. **Capital Structure:**

   Qualitative Disclosures:

   Tier 1 – Capital of the bank comprises of capital funds injected by HO, Statutory reserves and retained earnings.

   Regulatory deductions are on account of intangible assets being deferred tax asset

   Tier 2 Capital consists of general loss reserves subject to restrictions as per RBI guidelines.

   Quantitative Disclosures:

		(₹ in crore)
a.	**Tier I Capital**	
	Capital	202.73
	Reserves	68.38
b.	Deduction from Capital (Deferred Tax Asset and Software)	04.92
c.	Tier II Capital	02.92
	Total Eligible Capital	269.11

3. **Capital Adequacy:**

   Qualitative Disclosures:

   The primary objective of the Bank's capital management framework is to ensure that the Bank complies with externally imposed capital requirements and maintains healthy capital ratios in order to support its business and to maximize the return on equity.

   CAR of the Bank is estimated to be well above the regulatory CAR of 9 % for the next two years. For maintaining adequate capital, Bank has the additional option of augmenting the capital by raising subordinated debt.

   The Bank has finalized its ICAAP Policy and the same will be reviewed on a yearly basis.

   Quantitative Disclosures:

Capital requirement for credit risk	
Portfolios subject to standardized approach	₹ 608.45 crore
Securitization exposures	NIL
Total @ 9% CRAR	₹ 608.45 crore
Capital requirement for market risk.	
– Standardized duration approach	
Interest Rate Risk	₹ 1.65 crore
Foreign exchange risk (including gold)	₹ 1.51 crore
Equity Risk	NIL
Capital requirement for operational risk;	
Basic indicator approach	
Capital required for operational risk	₹ 4.83 crore
Total and Tier 1 capital ratios	
Tier I Capital	₹ 266.19 crore
Tier II Capital	₹ 02.92 crore
Total	₹ 269.11 crore
Total CRAR	38.60%
Core CRAR	38.18%

4. **General Disclosures:**

   Qualitative Disclosures:

   Risk Management involves identifying, measuring, monitoring and managing risks on a regular basis. The objective of risk management is to increase return on equity and achieve a return on equity commensurate with the risks assumed.

   The Bank faces a range of risks in its business and operations. These include among other things (i) Liquidity Risk (ii) Market Risk (iii) Credit Risk (iv) Operational Risk.

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Disclosures under the New Capital Adequacy Framework (BASEL II guidelines) for the year ended March 31, 2012

Country Head – India is the head of Indian operations who functions under the guidance of the Head office at Bahrain. The Bank has a full fledged risk management department which looks after the risk functions pertaining to Indian operations. The Risk related policies and procedures applicable to Indian operations are discussed and approved by the Risk management Committee. The head office at Bahrain has a fully equipped risk management department which guides the Indian counterparts on the risk related issues.

Liquidity Risk:

Liquidity risk is defined as the potential inability of the Bank to meet its financial obligations (liquidity needs) due to funding mismatch, The Bank has in place ALM policy which describes the measures for tracking and managing liquidity. It is the Bank's policy to keep part of its assets in high quality liquid assets such as inters bank placements, government bonds, bills and other short term instruments to meet maturing liabilities. The day to day management of liquidity is looked after by treasury with support from Asset-Liability management Committee (ALCO). The monitoring is done by risk management department.

Market Risk:

Market risk is defined as the risk of losses in on or off balance sheet positions arising from movements in market prices of interest rate related instruments, equities, forex and commodity prices.

The Bank has clearly defined policies for conducting investment and foreign exchange business, which stipulates limits for these activities. The Bank has no exposure to equity and commodity markets.

Traditional gap analysis and Duration gap analysis are followed for interest rate risk management. Fixing of IGL/AGL and forex VAR are followed for managing the forex risk.

Credit Risk:

Credit Risk is defined as the risk of the bank's borrowers or counterparties failing to meet their obligations in accordance with the agreed terms. The goal of credit risk management is to maximize the Bank's risk adjusted rate of return by maintaining credit-risk exposures within acceptable parameters. The bank has well defined policies and procedures for identifying, measuring, monitoring and controlling credit risk in all its activities. Credit limits are approved after thorough assessment of the creditworthiness of the borrower or counterparty including the purpose and structure of credit and its source of repayment. Credit proposals are reviewed by the designated credit officer independently before obtaining approval from the appropriate authority.

Credit growth, quality and portfolio composition are monitored continuously to maximize return and reduce incidence of impairment. The Bank monitors concentration risk by setting up limits for maximum exposure to individual borrower or counterparty, country, bank or industry. These limits are approved after detailed analysis and are monitored regularly.

The Bank's credit administration unit ensures that credit facilities are released after proper approval and against proper documentation. It also monitors excesses over limits, past dues, expired credits, and highlights corrective action immediately.

The Bank has a risk asset rating guidelines and all credits are assigned a rating in accordance with the defined criteria. All lending relationships are reviewed at least once a year and more frequently for Non Performing Assets. The Internal Audit Department conducts independent reviews of risk assets periodically and submits its report to Senior Management/Audit Committee.

It is the Bank's policy to ensure that provisions for credit loss are maintained at adequate levels.

The bank line limits are set by Head Office at Bahrain giving due weightage to political, economic and commercial risks attached to various countries and the size, track record and performance indicator of various banks. These limits are reviewed annually

<u>Definition of past due and impaired assets (for accounting purpose)</u>

Non-performing Assets:

The Bank has followed the 90-day norm for NPA classification.

Accordingly, an advance is treated as a Non-performing asset when

(i) Interest and /or installment of principal amount remains overdue for a period of 90 days or above in respect of a term loan

(ii) The account remains out of order for a period of more than 90 days in respect of Overdraft/Cash Credit

(iii) Bills remain overdue for a period of more than 90 days in case of bills purchased/discounted.

(iv) Any amount to be received remains overdue for a period of more than 90 days in respect of other accounts.

Discussion of Bank's Credit Risk Management policy

As discussed under the sub head Credit risk

Quantitative Disclosures:

- Total gross credit risk exposures – Fund based ₹ 1,183.65 crore
- Non-fund based ₹ 891.20 crore
- Geographic distribution of exposure-Fund based and non fund based separately.

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The Bank operates as a single unit in India and as such has no identifiable geographical segment subject to dissimilar risk and returns. Hence no information regarding the same has been given.

- Industry type distribution of exposures- funded and non-funded exposure separately.

Industry Type Distribution of Exposures

(₹ in crore)

CODE	INDUSTRY	FUND BASED O/S			NFB O/S
		STD	NPA	TOTAL	
003	Iron & Steel	–	–	–	–
005	All Engineering	–	–	–	3.00
006	Electricity	–	–	–	–
007	Cotton Textiles	15.37	–	15.37	30.95
009	Other Textiles	–	–	–	–
012	Food Processing	33.83	–	33.83	–
017	Chemicals, dyes paints etc.	100.66	12.86	113.52	–
0171	Of Which fertilizers	–	–	–	2.73
0172	Of Which petro chemicals	10.43	–	10.43	–
0173	Of Which drugs & pharmaceuticals	90.23	12.83	103.09	28.90
021	Construction	146.65	–	146.65	6.77
025	Infrastructure	115.66	–	115.66	–
0252	Of which telecommunications	–	–	–	–
0253	Of which road & ports	115.64	–	115.64	–
026	Other industries	188.20	3.28	191.48	47.97
027	NBFCS	5.64	–	5.64	–
028	Residual advances to balance gross adv.	19.83	–	19.83	–
	Grand Total	**625.84**	**16.14**	**641.98**	**120.32**

- Residual Contractual Maturity break-down of assets:

(₹ in crore)

	1 Day	2-7 Days	8 to 14 Days	15 to 28 Days	29 day-upto 3 months	3-upto 6 months	6-upto 12 months	1-upto 3 years	3-upto 5 years	5-upto 10 years	10-upto 20 years	Over 20 Years	Total
1 Cash	0.79	–	–	–	–	–	–	–	–	–	–	–	0.79
2 Balance with RBI	–	–	6.40	0.89	6.60	2.90	10.63	12.43	0.08	0.31	–	–	40.24
3 Balances with banks & money at call & short notice	115.92	20.09	–	–	–	–	–	–	–	–	–	–	136.01
4 Investments	–	–	34.46	5.00	109.91	18.21	74.52	95.46	0.45	1.46	–	–	339.47
5 Advances	10.20	21.81	20.98	114.55	63.43	79.34	85.99	220.94	22.72	3.59	–	–	643.55
6 Fixed Assets	–	–	–	–	–	–	–	–	–	–	–	5.11	5.11
7 Other assets	0.19	1.35	–	0.63	2.82	0.59	–	10.03	–	7.81	–	–	23.42

- Amount of NPA's Gross

Substandard	₹ 17.37 crore
Doubtful 1	₹ 0.15 crore
Doubtful 2	₹ 10.04 crore
Doubtful 3	₹ 0.04 crore
Loss	₹ 0.12 crore

- Net NPA's ₹ 16.15 crore
- NPA Ratios

Gross NPA's to Gross Advances	4.24%
Net NPA's to net advances	2.52%

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Disclosures under the New Capital Adequacy Framework (BASEL II guidelines) for the year ended March 31, 2012

Movement of NPA's (Gross)
Disclosed in Schedule 18 of the year accounts Note no 7.

Movement of provisions for NPA's

Disclosed in Schedule 18 of the year accounts Note no 7.

Amount of Non-Performing Investments	₹ 1.34 crore
Amount of provision held for Non-Performing Investments	₹ 1.34 crore

Movement of provision for depreciation on investments

(₹ in crore)

Particulars	2011-2012
Opening Balance	3.22
Add: Provisions for depreciation made during the year	1.09
Less: Write-off	–
Less: Write back of provisions during the year	–
Closing balance	4.31

5. **Credit Risk: Portfolios subject to standardized approach**

Qualitative Disclosures:

As per RBI Guidelines, the Bank has identified CARE, CRISIL, ICRA and FITCH in India as the domestic credit rating agencies and FITCH, MOODY and S & P as international credit rating agencies for all exposures (Corporate exposures and banking exposures) wherever applicable. The bank is not using any process to transfer public issue ratings on to comparable assets in the banking book.

Also rated facilities have been considered as those facilities where the bank's exposure has been explicitly rated; else that exposure has been treated by the bank as unrated.

Quantitative Disclosures:

The quantitative disclosures for exposure amounts after risk mitigation subject to the standardized approach are given in three major risk buckets-

Below 100% risk weight	₹ 1,009.74 crore
100% risk weight	₹ 298.28 crore
More than 100%	₹ 46.91 crore
Deducted	Nil

6. **Credit risk mitigation: Standardized approach**

Qualitative Disclosures:

The Bank has in place credit risk mitigation and collateral management policy which summarizes the Bank's approach for and an indication of the extent to which the bank makes use of on and off balance sheet netting. The valuation of collaterals is being carried out periodically. The collaterals considered for Risk mitigation includes bank's fixed deposits, insurance policies and counter guarantees of Banks including Head Office and Branch guarantee.

Quantitative Disclosures:

Total Exposure covered by eligible financial collateral after the application of haircuts:

	₹ in crore as of 31-03-2012	
	Gross outstanding	**Financial Mitigant**
Corporate loans*	193.18	18.43
Retail Loans	0.05	0.04

* Corporate Exposure includes both fund based and Non Fund based exposure.

7. **Securitisation: Standardised approach**

The Bank has not securitized any of its assets portfolios.

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Disclosures under the New Capital Adequacy Framework (BASEL II guidelines) for the year ended March 31, 2012

8. Market Risk

Qualitative Disclosures:

a) The Bank is following the standardized duration for calculating market risk on the following portfolios

Securities held under HFT and AFS categories
Forward foreign exchange contracts

b) Risk Management Department is responsible for identification, assessment, monitoring and reporting the market risks.

c) Risk Management and reporting is based on parameters such as Modified Duration, Maximum permissible exposures, Net Open Position limits, Gap limits, Value at Risk (VAR).

d) The Bank does not have any direct exposure to Capital Market.

Quantitative Disclosures:

The capital requirements for

i)	Interest rate risk	₹ 1.65 crore
ii)	Equity position risk	NIL
iii)	Foreign exchange risk	₹ 1.51 crore

9. Operational Risk

Qualitative Disclosures:

Operational Risk is the exposure to loss resulting from inadequate or failed internal processes or people or systems or from external events. The Bank has clearly defined operations procedures for each of its products and services. It also has advanced computer systems that enable it to run operations with speed and accuracy. The Bank has got in place concurrent audit and internal audit systems which help in identifying and rectifying the operational deficiencies.

The approved Business Continuity Plan is in place and implementation of the same is in process. The regular back-ups are made for important data and stored outside the bank's premises. All our branches are integrated under core banking software. A system of prompt submission of reports on frauds is in place in the Bank.

Interest Rate Risk in the Banking book

The Asset Liability Management Committee which is responsible for evolving appropriate systems and procedures for ongoing identification and analysis of Balance Sheet risks and laying down parameters for efficient management of these risks through Assets Liability Management Policy of the Bank. ALCO therefore periodically monitors and controls the risks and returns, funding and deployment, setting Bank's lending and deposit rates, and directing the investment activities of the Bank.

It is the Bank's policy to keep its assets and liabilities mismatches at acceptable levels to maintain steady net interest income. The Bank monitors interest rate risk based on gap limits. The Interest rate sensitivity statements are prepared on a fortnightly basis to monitor the interest rate risk. The Asset Liability management committee (ALCO) reviews the interest rate risk periodically and suggests measures to tackle the dynamic situations.

10. Interest rate Risk in the banking Book (IRRBB)

Qualitative Disclosures

The bank has practice of monitoring Interest rate risk in Banking Book on a monthly basis. The liabilities and assets are grouped into different buckets based on the interest re-pricing horizon. The gaps between the Assets and Liabilities are analyzed with the help of pre-determined gap limits. The reasons for the breaches are identified and necessary steps are initiated.

Quantitative Disclosures

The impact on the bank's financial condition due to change in interest rate is being monitored. The impact of 200 basis points change upward/downward in interest rate on Net Interest Income (NII) amounted to an expected loss of INR 1.93 crore based on Asset Liability position of March 2012 using the traditional gap analysis.

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AUDITORS' REPORT

On the financial statements of the Indian Branches of Bank of Bahrain & Kuwait B.S.C. under Section 30 of the Banking Regulation Act, 1949

We have audited the attached Balance Sheet of the Indian Branches of the Bank of Bahrain & Kuwait B.S.C. (hereinafter referred to as the 'Bank') as on 31st March 2012, the annexed Profit & Loss of the Indian Branches of the Bank for the year ended on that date and the Cash Flow Statement of the Indian Branches of the Bank for the year ended on that date. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in India. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall presentation of financial statements. We believe that our audit provides a reasonable basis for our opinion.

In accordance with the provisions of Section 29 of the Banking Regulation Act, 1949, of India read with the provision of sub-section (1), (2) and (5) of Section 211 and sub section (5) of section 227 of the Indian Companies Act, 1956, the Balance Sheet and the Profit & Loss Account are not required to be drawn up in accordance with Schedule VI of the Companies Act, 1956. The accounts are therefore drawn up in conformity with Form 'A' and 'B' of the Third Schedule to the Banking Regulation Act, 1949.

We report that:

(i) We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purposes of our audit and have found them to be satisfactory.

(ii) The transactions of the Indian Branches which have come to our notice have been, in our opinion, within the powers of the Bank.

(iii) In our opinion, proper books of account, as required by law have been maintained by the Bank in so far as appears from our examination of those books.

(iv) The Balance Sheet and Profit & Loss Account dealt with by this report are in agreement with the books of account;

(v) In our opinion, the Balance Sheet and Profit and Loss Account dealt with by this report comply with the accounting standards referred to in sub-section (3C) of section 211 of the Indian Companies Act, 1956, in so far as they apply to Banks and are not inconsistent with the Banking Regulation Act 1949 and the method of accounting and disclosure prescribed by the Reserve Bank of India.

(vi) In our opinion and to the best of our information and according to the explanation given to us, the said accounts read with the principal accounting policies and the notes thereon give the information required by the Indian Companies Act, 1956, in the manner so required for Banking Companies and on such basis give a true and fair view in conformity with the accounting principles generally accepted in India;

(a) in the case of the Balance Sheet, of the state of affairs of the Indian Branches of the Bank as on 31st March 2012;

(b) in the case of the Profit & Loss Account, of the profit of the Indian Branches of the Bank for the year ended on that date; and

(c) In the case of Cash Flow Statement, of the cash flows of the Indian Branches of the Bank for the year ended on that date.

For and on behalf of
A. P. Sanzgiri & Co.
Chartered Accountants
Firm Regn. No. : 116293W

Mehul Shah
Partner
M. No. 100909

Place: Mumbai
Date: June 21, 2012